



Klein Calls for Smarter Regulation to Prevent Repeat of AIG Disaster

Washington, D.C. – Congressman Ron Klein (FL-22) today submitted an opening statement at a hearing of the House Financial Services Committee addressing the need for a comprehensive review of how we regulate systemic risk across the financial services industry.

Klein focused on the “deplorable saga of AIG” as an example of the need for “a simpler, smarter, and more comprehensive regulatory structure” which “could have prevented this situation from occurring.”

Klein’s full statement follows.

**Statement of Congressman Ron Klein
House Financial Services Committee Hearing, “Perspectives on Regulation of Systemic Risk in the Financial Services Industry”
March 17, 2009**

Thank you, Chairman Frank, for holding this important hearing.

Ten years ago, Congress repealed the statutory separation of commercial banking, investment banking, and insurance companies. These financial institutions entered into new markets with more diversified banking authority, yet Congress did not extend the regulatory framework to meet the challenges posed by this new financial order. Compounding this problem, there are non-bank financial institutions that have not been integrated into the regulatory structure.

As a result, we currently have a fragmented and overlapping regulatory system. There are over five major government institutions that share responsibility for regulating the financial system in America, and this is just at the federal level. In many cases, these regulatory bodies do not function in a smooth, consistent or coordinated way, and in fact can sometimes have conflicting objectives.

Unfortunately, we are seeing the consequences of this faulty regulatory system today, and the deplorable saga of AIG is a perfect example.

Both state and federal regulators had jurisdiction over AIG, but many of their credit default swap (CDS) transactions took place in the over-the-counter derivatives market that has no regulation at all. There was no systemic risk regulator to make AIG refrain from taking highly leveraged bets

with dangerous levels of counterparty risk. AIG was allowed to take these large, leveraged positions in complicated credit default swaps and derivatives products that were barely understood by regulators and passed off with AAA ratings from credit ratings agencies asleep at the wheel. A simpler, smarter, and more comprehensive regulatory structure could have prevented this situation from occurring.

I am as disgusted as my constituents to see AIG, a company in distress because of its own mistakes, get bailed out with taxpayer dollars while well-run small businesses in my home state of Florida are struggling. Yes, it is essential that the problems at AIG do not negatively affect the economy and hurt small businesses and consumers throughout America. But we must ensure that the people who caused this situation pay the price, and more importantly, we must make sure it never happens again.

I look forward to this hearing, and to a discussion of the best way to restructure America's regulatory system.

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